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Third progress report of the Secretary-General on the adoption of International Public Sector Accounting Standards by the United Nations

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the third progress report of the Secretary-General on the adoption of International Public Sector Accounting Standards by the United Nations (A/65/308). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification.

2. The report of the Secretary-General covers activities towards the implementation of International Public Sector Accounting Standards (IPSAS) for the period from 1 August 2009 to 31 July 2010. Section I of the report provides background information on the subject matter. Section II outlines progress made towards the adoption of IPSAS by United Nations system organizations. Details on the activities of the United Nations IPSAS Implementation Project Team are contained in Section III. The Secretary-General also provides background information on the establishment of the system-wide and United Nations-wide IPSAS projects and their respective mandates, governance, organization and budgets (ibid., paras. 1-15 and paras. 34-39).

The United Nations system-wide IPSAS adoption project

3. The Secretary-General indicates that during the reporting period, the system-wide project team was focused on the development and provision of guidance on IPSAS-compliant accounting policies, as well as on activities related to communication and training.

4. The Advisory Committee notes that key accomplishments in the area of IPSAS-compliant accounting policies include the following:

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- Development of three decision papers on the treatment of specific accounting issues, including employee benefits, receivables from assessed contributions and donated rights to use premises under joint arrangements. The decision papers were endorsed by the IPSAS Task Force.

- Activation of five thematic working groups on specific IPSAS implementation issues, namely accounting for employee benefits, controlled entities, common services, donated rights to use premises under joint arrangements and inventories.

- Development of an approach to managing accounting policy diversity among the participating organizations, including the establishment of a baseline of common accounting policies and practices, monitoring changes and factors contributing to diversity, and establishing processes for further harmonization. The approach was approved by the Task Force.

The Committee further notes that the System-Wide team attends meetings of the IPSAS Board as an observer, and is able to bring the United Nations system perspective to the attention of the Board.

5. The main activities of the system-wide team during the reporting period in the area of communications and training include:

- Provision of support to the meetings of the High-Level Committee on Management, the IPSAS Task Force and the Steering Committee of the system-wide project, including drafting briefs and documents, supporting the decision-making process and providing technical and administrative support to the chair of the Task Force.

- Development of a framework to guide the interactions of the participating organizations with their respective external auditors throughout IPSAS implementation, based on the successful experience of the World Food Programme and building on the lessons learned by early adopters. Once it is adopted by the Task Force, the framework will be shared with the Panel of External Auditors.

- Addressing training issues of a system-wide nature.

6. The Secretary-General reports that many organizations have deferred their original IPSAS implementation target dates owing to the scale and complexity of the undertaking, the need to align IPSAS adoption to the implementation of the enterprise resource planning system, and, in some cases, lack of adequate funding. The revised implementation dates for each organization are provided in the annex to the report of the Secretary-General. The Advisory Committee notes that the targeted dates for IPSAS adoption are as follows: eight entities in 2010; two entities in 2011; nine entities in 2012 and two entities, including the United Nations, in 2014.

7. In its observations on the status of implementation of IPSAS across the United Nations organizations, the Board of Auditors emphasized that one of the key benefits of IPSAS was the value to be gained by users of comparable financial information, and noted that adherence to a rigorous set of standards would help ensure full realization of the benefits of IPSAS. The Board further highlighted the

continued role of the United Nations Finance and Budget network of the High-Level Committee on Management in providing policy positions and guidelines.[1]

8. In the above-mentioned report the Board of Auditors also commented on the financial regulations and rules of the organizations of the United Nations (ibid., paras. 65-68). It noted numerous cases of inconsistent application of policies for the treatment of similar transactions from entity to entity (such as inventory, funds advanced to implementing partners and contributions), as well as inconsistencies in the format and layout of financial statements, even though the entities in question operate under the common framework of the United Nations system accounting standards.

9. **The Advisory Committee shares the Board's concerns with respect to the above-mentioned inconsistencies. The Committee underscores the importance of the work being done by the IPSAS Task Force in managing emerging accounting policy diversity among organizations arising from differences in regulatory frameworks, institutional arrangements, implementation mandates and modalities, business models and alternatives allowed by the IPSAS standards. This will facilitate comparisons of financial information across the different organizations of the United Nations system.**

10. The Secretary-General reports that the level of engagement of external auditors in IPSAS implementation varies widely across the United Nations system (see A/65/308, para. 33). **The Advisory Committee considers it necessary that the respective external auditors of the different entities provide advice and guidance to the IPSAS implementation teams, particularly on complex issues and accounting policies. The Advisory Committee emphasizes the need to resolve outstanding questions relating to accounting policies and other complex issues prior to the finalization of the design and specification of the enterprise resource planning solutions. In this connection, the Advisory Committee recalls that in its report on financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2009 (see A/65/498, para. 19), it recommended that the Board be requested to report to the General Assembly on an annual basis on progress towards the implementation of IPSAS.**

United Nations IPSAS implementation project

11. The Secretary-General states that steady progress is being made on the United Nations IPSAS implementation project and that the project remains on track for issuance of the first IPSAS-compliant financial statements in 2014, in conjunction with the launch of the enterprise resource planning system (Umoja) by the end of 2013. As regards peacekeeping operations, IPSAS-compliant financial statements are currently planned to be produced as at 30 June 2014. The Secretary-General also intends to evaluate the feasibility of preparing IPSAS-compliant financial statements earlier, for the fiscal year ending 30 June 2013, taking into consideration the planned completion of Umoja implementation at peacekeeping missions by the second quarter of 2013 (see A/65/308, para. 55). The Secretary-General indicates that the IPSAS and Umoja teams continue to coordinate closely to ensure the

[1] See A/65/169, para. 39 (a concise summary of principal findings and conclusions contained in the reports prepared by the Board of Auditors for the General Assembly at its sixty-fifth session).

alignment of the activities and timelines of both projects. Details on the collaboration are provided in paragraphs 52 to 55 of the Secretary-General's progress report. The Advisory Committee notes the continued dependency between the timeline of IPSAS adoption and the progress made towards the implementation of Umoja (see A/65/308, para. 34). **It is therefore important that the enterprise resource planning project remain on target and is implemented in accordance with its timeline.**

12. As indicated in paragraphs 37 to 39 of the report of the Secretary-General, the governance of the IPSAS project was strengthened during the reporting period to include periodic review of progress by the Management Committee. The United Nations Environment Programme and UN-Habitat were also added as members of the Steering Committee. **The Advisory Committee welcomes the steps taken to strengthen the governance model of the IPSAS project and to broaden representation of IPSAS stakeholders on the project Steering Committee.**

13. In paragraphs 40 to 51 of his report, the Secretary-General outlines the key activities of the United Nations IPSAS Implementation Project Team. He indicates that the development of IPSAS-compliant accounting policies remained the main focus of the project during the 12-month reporting period. These policies relate to issues such as donated rights to use premises, the Capital Master Plan and consolidation under IPSAS.

14. From paragraph 49 of the report of the Secretary-General, the Advisory Committee notes that the IPSAS implementation project has adopted a strategy of progressive incorporation of IPSAS requirements to the extent allowed by existing United Nations system accounting standards and current information systems. As indicated, because of the constraints imposed by the current information system, these changes are necessarily limited. The 2009 audited financial statements include additional note disclosures for contributions in kind, including those received under Status of Forces Agreement and Status of Mission Agreement arrangements, modifications of the capitalization policy for the Capital Master Plan and determination of the liabilities for repatriation benefits and unused vacation days on an actuarial basis. **The Advisory Committee welcomes the approach taken and encourages the Secretary-General to pursue such efforts. It considers that the practical experience gained through such a progressive approach could facilitate a smooth transition to IPSAS and also clarify IPSAS-related requirements for the enterprise resource planning system. The Committee looks forward to receiving information on progress made in future reports.**

15. The Advisory Committee notes that the Secretariat is preparing a statement of work for consultancy services for the implementation of IPSAS, to include services such as the validation of accounting policies, development of an accounting manual for the United Nations and documentation of an effective IPSAS implementation strategy (ibid., para. 50). The consultancy services will also cover provision of support for the preparation of non-expendable property and expendables data for conversion to IPSAS. **In light of the continued emphasis placed by the Board of Auditors on the need for improved recording and management of non-expendable property (see A/65/169, paras. 89-92), the Advisory Committee recommends that the Secretary-General be requested to elaborate on these activities, as well as on the role of the consultant, in the context of the next progress report on IPSAS.**

16. The Secretary-General reports on the activities undertaken by the United Nations IPSAS Implementation Project Team during the reporting period in the area of communications and training (see A/65/308, paras. 56-60). The Advisory Committee notes that the Team launched an IPSAS newsletter, revamped the IPSAS intranet site and provided a number of briefings to stakeholders with a view to increasing awareness of and expertise on IPSAS. As indicated in paragraph 22 of the report of the Secretary-General, the United Nations IPSAS Implementation Project Team took responsibility for the development of a comprehensive suite of IPSAS training materials, and made available to the United Nations system organizations the suite of 18 IPSAS training products, including seven computer-based training courses and 11 instructor-led training courses in December 2009. The computer-based training courses were launched in January 2010. The Advisory Committee notes that all administrative personnel will be required to take the awareness-raising computer-based training courses. It was informed that, to date, some 3,300 e-certificates had been issued to staff having completed the computer-based training courses since their launch. As for instructor-led training, the Advisory Committee was informed that, on the basis of a survey, some 1,300 specialized staff in finance and related areas had been identified at Headquarters, in offices away from Headquarters and field missions as candidates for the two-week instructor-led training programme. The programme would begin in 2011, closer to the launching of IPSAS, so as to maximize the effectiveness of the training. The Advisory Committee also points to the need to take into account the movements of staff, especially in peacekeeping operations.

17. In its previous report, the Advisory Committee had requested the Secretary-General to pursue his examination of the IPSAS requirement for consolidated statements and its applicability and/or application to the United Nations system (see A/64/531, para. 13). The Secretary-General provides details on the outcome of his examination in paragraphs 47 and 48 of his report. He indicates that the United Nations IPSAS Implementation Project Team has concluded that there is no clear requirement for consolidation under IPSAS, and is therefore proposing to continue current arrangements for separate volumes of IPSAS-compliant financial statements, including those for Volume II for peacekeeping operations. In this regard, the Office of Legal Affairs, consulted as to any adverse legal implications, has indicated that it has no objection, from a legal perspective, to the proposal of the United Nations IPSAS Implementation Project Team. The Secretary-General indicates that plans are under way to hold further consultations on this matter with the funds and programmes and the Board of Auditors. **The Advisory Committee recommends that the Secretary-General be requested to pursue such consultations with the funds and programmes and the Board of Auditors and to report on this matter in the context of the next IPSAS progress report.**

18. In its report on the reports of the Board of Auditors for the period ended 31 December 2009, the Advisory Committee noted that issuance of financial reports on an annual rather than a biennial basis would have an impact on the workload and resource requirements of the Board of Auditors (see A/65/498, para. 13). **The Committee reiterates the need to determine, in advance of the planned transition to IPSAS in 2014, the impact of the adoption of IPSAS on the reporting requirements of Member States, as well as on the role and activities of the Board of Auditors and any associated resource implications. The Secretary-General should also consult with the Audit Operations Committee on**

this matter. The Advisory Committee recommends that the Secretary-General be requested to report on this matter in the context of his next IPSAS progress report.

19. An update on the status of expenditures as at 31 July 2010 is provided in paragraph 61 of the report of the Secretary-General. Upon enquiry, the Committee was provided with an updated status of expenditures as at 31 October 2010, which is annexed to the present report.

20. **The Advisory Committee recommends that the General Assembly take note of the report of the Secretary-General.**

Annex

Status of expenditures as at 31 October 2010 relating to the adoption of International Public Sector Accounting Standards at the United Nations

	2010-2011 expenditures up to 30 September 2010
(1) Regular budget	
Section 28B, Office of Programme Planning, Budget and Accounts	
Posts	368.6
General temporary assistance	0.4
Consultants	—
Travel of staff	48.2
Contractual services	12.5
Subtotal, Section 28B	**429.7**
Section 31, Jointly Financed Activities	
Grants and contributions	81.2
Total regular budget	**510.9**
(2) Peacekeeping support account	
General temporary assistance	243.6
Travel	10.3
Total support account for peacekeeping operations	**253.9**
Grand total (1) and (2)	**764.8**